

MINUTES

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY BOARD OF DIRECTORS' MEETING DECEMBER 13, 2005

The 261st meeting of the Rhode Island Higher Education Assistance Authority was held on Tuesday, December 13, 2005 in the McKenna Conference Room of the Authority, 560 Jefferson Boulevard, Warwick, Rhode Island. Vice Chairman Santoro called the meeting to order at 9:10 a.m.

The following members were in attendance:

Dr. Robert J. McKenna, Chairman

Dr. Anthony J. Santoro, Vice Chairman

Dr. William Croasdale, Treasurer

Mr. John Howell, Secretary

Ms. Miriam Curtis Coleman

Mr. William B. Hall

Mr. Solomon A. Solomon

Mr. Kerry Walsh, Designee of General Treasurer

Members Absent:

Ms. Laura DiSano

Also Attending:

Mr. William H. Hurry, Jr., Executive Director, RIHEAA

Ms. Gail Mance-Rios, Deputy Director, RIHEAA

Mr. Marc Lacroix

Mr. Joseph R. Palumbo, Legal Counsel

Ms. Nancy Ann Dooley

Ms. Mary Ann Welch

Mr. Michael Joyce

Ms. Sue Zubee

Mr. Charles P. Kelley, Executive Director, NESLA

Mr. Noel Simpson, Executive Director, RISLA

1) Approval of Minutes of the September 13, October 11, and October 25, 2005 Board Meetings.

On motion duly made by Dr. Croasdale and seconded by Mr. Howell, it was

VOTED: That the minutes of the Board meetings held on September 13, October 11, and October 25, 2005 be accepted/approved and placed on file.

Voting in favor: Dr. Santoro, Dr. Croasdale, Mr. Howell, Ms. Coleman, Mr. Hall, Mr. Solomon and Mr. Walsh. Voting against: none.

3) Executive Director's Report:

a. Mr. Hurry noted that we received official notification from the General Treasurer appointing Mr. Kerry Walsh as his designee for this meeting on the RIHEAA Board of Directors. Rebecca Johnson will be

Kerry Bennett's replacement going forward.

b. With respect to the 2007 budget, there has been no further formal communications from the budget office. Mr. Hurry stated that under the Scholarship and Grant Update the Board will be asked to work with RIHEAA regarding the current year allocation of CollegeBoundfund grant monies, so as to protect eligibility for Federal SLEAP funding in the current budget year. There is a potential action item under 9.b on the agenda.

c. The Authority was requested by the Administration to submit an update of the "White Paper" that was done last year with respect to the Governor's initiative on the grant programs, Tuition Opportunity Program. This information has been provided to the Governor's staff and to date there has been no formal response.

d. RIHEAA has also submitted suggestions for loan forgiveness programs to encourage people who enter into teaching science and math in Rhode Island schools. RIHEAA staff have noted for the Governor's staff some of their own hesitation as to whether or not some of these loan forgiveness programs would prove to be effective.

e. Mr. Hurry reported that NEBHE will be hosting its 50th Anniversary event on February 24, 2006 at the Fairmont Copley Plaza in Boston. The event is the "Excellence Awards" dinner, and the Rhode Island Higher Education Assistance Authority has been selected to receive

the state award for excellence for Rhode Island. Mr. Hurry asked that the Board members try to attend.

NEBHE has been involved in, and is staffing under a grant from NELLIE MAE Foundation and smaller sponsorships (including one from RIHEAA) the College Ready New England Alliance. RIHEAA provided some sponsorship for this project when it was initially launched. There will be a formal launch of this program sometime in the spring.

f. Mr. Hurry shared with the Board an acknowledgement and thank you from the Solomon family for the remembrances of the Board on the passing of Mr. Solomon Solomon's wife.

g. The executive director alerted the Board to the fact that he had received a call from Mary Silvia Harrison, President of the Rhode Island Children's Crusade, regarding the ability of the Crusade to sustain for the long term the scholarship portion of the Crusade as an integral part of their program effort. There might be potential for leveraging that could develop from creative application of Crusade money with the 5&10 Matching Grant Program and the CollegeBoundfund. Mr. Hurry met with Ms. Harrison regarding some possibilities. Subsequently she has sent a formal inquiry along with information about their endowment and how they are investing it now and what their projections are. After January 1, staff (including Ms. Johnson of the Treasurer's staff) will meet to review that information

to see if there might be something in our mutual best interest and more importantly in the interest of needy Rhode Island students going forward.

h. Mr. Hurry reported that Mary Ann Welch, Director of RIHEAA's Grant/Scholarship Division is now President-elect of the National Association of State Student Grant and Aid Programs (NASSGAP). Congratulations were offered to Ms. Welch.

i. The Federal Program review team will be visiting the Authority this week to conduct a compliance review of the Authority's management of the Federal Student Loan Programs.

j. Regarding the update on the website for early awareness, Mr. Hurry reported that he has been invited to do a presentation tomorrow at the Governor's PK-16 Council Meeting. One action item on their agenda tomorrow is an action item: "Recommendation that the PK-16 Council requests the Rhode Island Higher Education Assistance Authority to work collaboratively on developing and issuing a competitive Request for Proposal to establish a portal for helping students plan, apply, and pay for college."

2) Chairman's Report:

a. Regarding the update on Separation of Powers, Mr. Palumbo reported that legislation was introduced last year but vetoed (along

with a number of other such bills) by the governor. Technically, RIHEAA is still constituted the old way. Given that, RIHEAA's enabling legislation still speaks to having the legislative members on the Board. His understanding is that it will be fixed by the legislature this year. Since the approval of the constitutional amendment in November 2004, no legislators have served on the RIHEAA Board, and hence, they have not participated in any Board actions.

Mr. Palumbo briefly explained the new financial disclosure requirements. Last year the legislature expanded the applicability of the reporting requirements to include certain staff persons within the agency that are in the position of making major decisions for the agency. Based on reviewing RIHEAA's situation Mr. Palumbo determined that the Executive Director, Deputy Director, and Assistant Director for Finance and Contract Management would need to comply with the financial disclosure requirements.

The other issue deals with the gift limits. The Ethics Commission amended the requirements which presently states that you are prohibited from accepting any single gift having a value greater than \$25.00 and from accepting gifts in the aggregate from a single person greater than \$75.00. However, there is no longer reporting required on such gifts. This applies to Board members as well as staff who work for the agency.

It is noted for the record that Chairman McKenna arrived at 9:28 p.m.

Vice Chairman Santoro turned the meeting over to Chairman McKenna at 9:32 a.m.

4.a. Mr. Lacroix noted that the Board will be calling Mr. Joseph Sabetta of the audit firm LGC&D for the RIHEST audit report. Mr. Lacroix did not receive the drafts of the financial statements audit and the communications required by SAS 61 until late in the day yesterday. We are waiting for comments from the Alliance Capital auditors. There are no substantive issues and there are no management comments.

Alliance is reviewing this final draft now to ensure that what they provided to us has been accurately incorporated into this document.

Mr. Hurry placed the call to Mr. Sabetta of LGC&D at 9:36 a.m.

Dr. Croasdale asked Mr. Sabetta to provide an update on the status of the audit and noted that he and Mr. Lacroix had spoken to Mr. Sabetta prior to the Board meeting.

Mr. Sabetta stated that an audit was conducted of RIHEST and that the audit was conducted in accordance with Government Auditing Standards. The auditor's opinion on the report is "unqualified" which means it is a clean report. There were no unusual transactions or other items, disagreements with management or difficulties

encountered with the audit. Therefore, Mr. Sabetta gave a high point review. RIHEST is made up of two funds, the fiduciary trust fund and the administrative fund. One change made this year is in the MD&A where the financial information was summarized in tabular format. Mr. Sabetta reviewed the comparative table of the administrative fund activities and the comparative table for the program fund.

Mr. Sabetta noted that there are no written management letter/comments this year. However, there is one issue that has been discussed with Mr. Lacroix. When the administrative fund was originally set up there were Alliance accounts designated to receive/hold those fees. Those accounts now have significant balances. Those accounts are not insured nor are they collateralized.

The balances in the accounts need to be either maintained or moved to other investments. This change is in process where Mr. Lacroix is setting up accounts to move the funds to higher yielding investments at Sovereign Bank.

Mr. Palumbo noted there is a typo on page 14 of the draft, the word CollegeBoundfund.

Mr. Sabetta stated that the legal proceedings, which were written by Alliance describing the various litigations against Alliance. There is no direct affect on the program fund, however, to the extent that these litigations could result in significant withdrawals by participants and investors in Alliance funds, Alliance could be forced

to prematurely liquidate these funds. This could indirectly affect the return on investments or the condition of the program fund. This is why the litigations are disclosed in this report even though they do not directly affect the program fund.

Mr. Hall asked if it is LGC&D's technical review that is requesting or requiring that five pages of litigations be included in RIHEST's financials.

Mr. Sabetta stated that it was Alliance's legal department's feeling that they did not want to have this shortened. They prefer the fullest possible disclosure.

Mr. Hall suggested that some of the litigations be removed if possible. This would need to be discussed with Alliance's legal counsel.

9.a. Action Item:

On motion duly made by Dr. Croasdale and seconded by Mr. Hall it was

VOTED: To approve the RIHEST audit subject to Alliance review of notes for the financial audit.

Voting in favor: Chairman McKenna, Dr. Santoro, Dr. Croasdale, Ms. Coleman, Mr. Hall, Mr. Howell, Mr. Santoro and Mr. Walsh. **Voting**

against: none.

4.b. Regarding the Budget versus Actual report Mr. Lacroix reported that there is a “revised” report for the Loan Division for the period FY 6/30/05. The original report was distributed at an earlier meeting. Two changes were made to the financials to make them agree to the audited report. The Authority received a late bill from Sallie Mae for printing for \$70,000. This is recorded. Also, the state was late in providing the change in liability for compensated absences, approved vacation and sick time for employees. These two changes were made and the revised report now agrees to the RIHEAA audited financial statement.

4.c Regarding the Budget versus Actual report for the first quarter of the current year, three months ended 9/30/05 Mr. Lacroix reported that the personnel section is fully funded. There are several open positions, which accounts for the difference between the budgeted amount and the actual expense in personnel. In purchased services, the budgeted amount for collection expenses was increased significantly. This activity has now plateaued.

Regarding the Sallie Mae portfolio management fee in the first quarter, Mr. Lacroix stated that the US Dept. of Education suspends activity in the William D. Ford Federal Direct Loan Consolidation Program in May and June. That activity generates significant commissions for the collection agencies. The effect of that

suspension of activity is reflected in the first quarter as a result.

There are no other issues of note.

Mr. Hurry mentioned that, on the default aversion side, the agency is looking to expand its activities. It has undertaken some initial conversations with some potential vendors who could assist with additional default aversion activities. An RFP may be issued within the next six months.

Regarding the student financial assistance line, Mr. Howell asked about the \$1.7 million versus \$8.9 million for revised budget. Mr. Lacroix stated that the budgeted amounts for the Loan Division are 25% of the full year's budget. In the Scholarship/Grant Program and College Savings Program the student financial aid sections show the full year's budget, the personnel, purchased services and operating sections are all 25%. The \$1.7 million is all that had been disbursed for grants through 9/30/05.

d. Regarding the Federal Student Loan Reserve Fund Update, Mr. Hurry reported that staff is still working on the projections, therefore, this update is deferred to the next meeting.

5) Investment Report:

Dr. Croasdale reported we are still investing in treasuries. In the

RIHEST Administrative Fund, Mr. Lacroix reported that the bulk of it will transfer to the same LIBOR Plus 20 type of account with Sovereign Bank.

With respect to the RIHEST audit Mr. Lacroix noted that there are still several questions to speak to Alliance about.

6) Grant/Scholarship Update:

Ms. Welch distributed the “white paper” that was revised and submitted to the Governor’s office. She also distributed “talking points” on the issue of the Governor’s Tuition Opportunity Grant proposal. There has been no response yet as far as the Governor’s going forward and proposing the program again this year.

Scholarship/Grant Update:

With respect to the state grant program activity, Ms. Welch reported that, in comparing this year to last year at this time, the program was over-expended last year by 27% and this year by 22%. We will be going to the late applicant waiting list soon in order to maintain the program at the FY 05 level.

The Scholarship and Grant web-based management and distribution system is moving along as it should as far as getting data and funds out to schools, and there are no problems in that area. The time it

takes to get payments to schools continues to decrease with the new electronic system.

New letters will be going out next month to the students for the 06/07 academic year.

Regarding the Academic Promise Scholarship Program, Ms. Welch distributed a revised report. As of December 5, \$1,086,419 has been committed to Academic Promise scholars. The program is overcommitted but based on the history of the program through attrition, it should be down to budget by the end of the year.

Ms. Welch mentioned that this is the time of year where there is a lot of activity in the high schools for financial aid nights. RIHEAA staff will be participating in the financial aid nights. The General Treasurer and Senator Reed also sponsor financial aid nights in which RIHEAA staff participate. A most successful guidance counselor seminar was held on November 30.

Mr. Hurry complimented Ms. Welch on the excellent work she and the staff have done.

Ms. Welch noted that RIHEAA also co-sponsors with the Rhode Island Association of Student Financial Aid Administrators the “Financial Aid Awareness Week” which will be January 8-14. RIHEAA staff will participate on the panel on the Channel 10 call-in segment on January

11.

9.b. Action Item:

Regarding the budget requirements to qualify for federal financial aid matching program, LEAP/SLEAP, Ms. Welch reviewed what is involved and explained what the dilemma is vis a vis the current budget year.

After a lengthy review and discussion Mr. Hurry suggested that no action be taken yet to modify the CollegeBoundfund Financial Aid allocations for FY 06 and to leave the allocation as it is for now and file it for future reference. However, this will need Board action at a later time.

It is noted for the record that Mr. Howell left the meeting at 10:35 a.m.

7) Loan Programs Update:

Ms. Dooley noted that the reports included in the materials are for October and November, 2005. Consolidations are down due to timing of the way the loan cycle runs.

Regarding the Loan Division staff's outreach effort in New York, Ms. Dooley reported that RIHEAA has guaranteed its first loan from SUNY at Purchase.

Several staff went to the NCHELP training program recently and Mr. Silva and she attended a joint NCHELP/Dept. of Education Default Aversion conference.

Included in the packets are calendars developed by Clordine Cox of the Collection Division. These were sent out to in-house defaulted borrowers as a gentle reminder to make their payments. Payment envelopes are included with the calendars.

Also, included in the materials is an article from the New York Times “Student Debt Collectible by Social Security” for review. Recently, in Lockhart vs. the United States, a decision was made that the government may withhold Social Security Disability benefits in order to collect old student loan debts.

8) CollegeBoundfund Update:

Mr. Joyce reported that as of November 25, 2005, there are over 463,000 total accounts with 14,858 of those being Rhode Island resident accounts. Total asset value is just over \$6.2 billion. Total asset value for Rhode Island accounts is currently over \$151 million.

Ms. Bramley should be at the next meeting to a give an update on the marketing plan.

9.c) Action Item: Board Meeting Schedule for 2006.

On motion duly made by Mr. Solomon and seconded by Dr. Croasdale, it was

VOTED: To continue with the same schedule that is presented, the second Tuesday of each month beginning at 9:00 A. M..

Voting in favor: Dr. McKenna, Dr. Santoro, Dr. Croasdale, Ms. Coleman, Mr. Hall, and Mr. Walsh. Voting against: none.

There being no further business to come before the Board, on motion duly made by Dr. Croasdale and seconded by Mr. Walsh, it was

VOTED: To adjourn the meeting.

Voting in favor: Chairman McKenna, Dr. Croasdale, Dr. Santoro, Ms. Coleman, Mr. Hall and Mr. Walsh. Voting against: none.

Adjournment was at 10:50 a.m.

Mr. John Howell

Secretary